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R 051602Z JUN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1701

INFO AMEMBASSY ANKARA

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E.O. 11652: GDS

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TAGS: PFOR, UK

SUBJECT: BRITAIN IN CRISIS

1. INTRODUCTION AND SUMMARY: TO SEE BRITAIN TODAY SOLELY THROUGH THE EYES OF THE FOREIGN PRESS IS TO RECEIVE A PICTURE OF UNRELIEVED GLOOM, OF A SOCIETY IN HEADLONG DESCENT INTO THE ABYSS, OF A NATION LOSING THE WILL TO SURVIVE. THE PROBLEMS WHICH BRITAIN CONFRONTS ARE FORMIDABLE; IN SOME RESPECTS THEY SEEM TO DEFY SOLUTION. GRANTED TOO THAT IN DRAWING A PROFILE OF A COUNTRY THAT HAS SLIPPED INTO THIRD POSITION FROM THE BOTTOM IN PER CAPITA INCOME IN THE EUROPEAN COMMUNITY, IT IS TEMPTING TO USE HYPERBOLE. YET THE INTIMATIONS OF DISASTER WHICH PERVADE THE ANALYSES OF SOME OBSERVERS (AMERICANS IN PARTICULAR) SEEM SO OVERDRAWN AS TO RAISE SERIOUS QUESTIONS ABOUT THE BALANCE AND THOROUGHNESS OF THEIR AUTHORS. WE WOULD ARGUE THAT IT IS PREMATURE TO WRITE BRITAIN OFF. CRUCIAL DECISIONS ABOUT THE ECONOMY, INDUSTRIAL RELATIONS AND POLITICAL COOPERATION LIE AHEAD. IF THESE ARE PUT RIGHT, THERE IS NO REASON WHY BRITAIN'S SLIDE CANNOT BE HALTED. INDEED, WITH A DEGREE OF SELF-DISCIPLINE THE FUTURE COULD BE FAIRLY BRIGHT.

2. AMONG THE INDUSTRIALIZED COUNTRIES OF WESTERN EUROPE BRITAIN IS PROBABLY THE MOST SERIOUSLY HANDICAPPED BY RESIDUAL CLASS ATTITUDES, LACK OF CONSENSUS IN INDUSTRIAL RELATIONS, ANTIQUATED INDUSTRIAL PLANT, AND SHEER LOW PRODUCTIVITY. BECAUSE OF ITS STATUS AS A FINANCIAL CENTER AND ITS DEPENDENCE ON FOREIGN COMMERCE AND INTERNATIONAL FINANCE, IT IS VULNERABLE TO A GREATER DEGREE THAN ANY OF ITS EUROPEAN COMMUNITY PARTNERS TO THE VAGARIES OF INTERNATIONAL ECONOMIC TRENDS. IN SPITE OF ITS MANIFOLD PROBLEMS THE BRITISH ECONOMY IS NOT DOING TOO BADLY -- IF ONE DISCOUNTS THE EFFECTS OF FACTORS BEYOND ITS OWN CONTROL, I.E., THE WORLD RECESSION AND THE HIGH PRICE OF OIL. NOT ALL THE STATISTICS ARE BAD. THE INDUSTRIAL RECESSION IN BRITAIN IS LESS SEVERE THAN IN THE UNITED STATES AND THE UNEMPLOYMENT RATE IS ONE OF THE LOWEST AMONG THE OECD COUNTRIES. THOUGH THESE FACTS MAY INDICATE THAT THE UK IS IN AN EARLIER STAGE IN THE RECESSION CYCLE, A MORE MANAGEABLE SITUATION IN THE VITAL AUTOMOTIVE INDUSTRY MAY GIVE BRITAIN A CHANCE TO AVOID A

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RECESSION AS DEEP AS THAT OF THE UNITED STATES. ALSO, THE RELATIVE STRENGTH OF STERLING AGAINST THE DOLLAR SHOWS THAT THE MARKET, DESPITE THE GLOOM OF BANKERS, IS NOT BETTING WITH THE DOOM-SAYERS. WHILE THE MAJOR LONG-TERM NEED IS TO MAKE THE ECONOMY EFFICIENT AND PRODUCTIVE, AND KEEP BRITISH EXPORTS COMPETITIVE, BRITAIN'S IMMEDIATE PRIORITY IS TO ARREST ITS RATE OF INFLATION. THERE IS A HUGE BUDGET DEFICIT, A FAIRLY SERIOUS BALANCE OF PAYMENTS

PROBLEM, AND A CURRENT RATE OF INFLATION ABOUT DOUBLE THAT OF MOST OECD COUNTRIES. A YEAR AGO, INFLATION WAS IMPORTED; NOW IT IS BEING MANUFACTURED HERE. WAGE INCREASES, NOW THE MAJOR CAUSE OF INFLATION, ARE NEARLY OUT OF CONTROL. (LONDON 8502 GIVES A MORE DETAILED ANALYSIS OF THE BRITISH ECONOMY AND ITS FUTURE.)

3. THE SOCIAL CONTRACT, NOW RATHER THREADBARE, HONORED MORE OFTEN IN THE BREACH THAN OBSERVANCE, IS STILL THE CHIEF INSTRUMENT OF THE LABOR GOVERNMENT TO CONTROL INFLATION. FOR THE UNIONS, THE SOCIAL CONTRACT, HOWEVER DISCREDITED IN THE POPULAR MIND, REMAINS HOLY WRIT. STRENGTHEN THE SOCIAL CONTRACT AND ALL WILL BE WELL, SAY THE TUC LEADERS. THE CHANCELLOR IS TRYING TO COMPENSATE FOR THE INADEQUACIES OF THE SOCIAL CONTRACT BY ANTI-INFLATIONARY OR AT LEAST NON-STIMULATIVE FISCAL AND BUDGETARY MEASURES, AND HE HAS DESIGNED HIS LATEST BUDGET

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1702

INFO AMEMBASSY ANKARA

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TO CURB DOMESTIC CONSUMPTION. NONETHELESS BUSINESS CONFIDENCE REMAINS LOW. THE GOVERNMENT'S TAX POLICY, ITS PLANS FOR INDUSTRIAL TAKEOVERS, AND COLLECTIVIST DOGMAS OF THE LEFT OF THE LABOR PARTY ALARM THE CITY AND MAKE THE BUSINESS COMMUNITY SHUDDER. INVESTMENT BY THE PRIVATE SECTOR REMAINS INADEQUATE AND IS OFTEN, BY MOST CONCEPTS, MISDIRECTED. THE ROCKETING CURVE OF INFLATION MORBIDLY FASCINATES BRITONS. INCREASINGLY INSISTENT APPEALS ARE MADE BY NATIONAL LEADERS FOR A MORE STRINGENT POLICY OF WAGE RESTRAINT, CURBS ON PUBLIC SPENDING AND PRIVATE CONSUMPTION. WHILE TUC LEADERS HAVE RECENTLY PLEADED THAT WAGE CLAIMS SHOULD BE KEPT WITHIN CONTRACT GUIDELINES, THEY HAVE NOT YET GOT THEIR MESSAGE ACROSS; FEW NATIONAL LEADERS ARE YET PREPARED TO LAY IT ON THE LINE TO THE BRANCH ORGANIZATIONS AND IT IS DOUBTFUL WHETHER THEY WOULD BE HEEDDED IF THEY DID SO. TO MAINTAIN THEIR AUTHORITY THEY MUST "DELIVER" NO LESS GENEROUSLY THAN THEIR COMPETITORS.

4. THE NEXT ROUND OF WAGE CLAIMS WILL START IN THE FALL. THE CLIMATE BY THEN SHOULD BE MORE PROPITIOUS FOR THE RESTRAINT WHICH IS ESSENTIAL TO CONTROL INFLATION. THE ANORMALIES OF THE STATUTORY INCOMES POLICY OF THE PREVIOUS CONSERVATIVE GOVERNMENT WILL LARGELY HAVE BEEN ERASED. WITH A TABULA RASA IT MAY BE LESS DIFFICULT TO FIND CONSENSUS AMONG THE TUC AFFILIATES ON WAGE RESTRAINT. SENIOR UNION LEADERS RECOGNIZE THE SERIOUSNESS OF THE NATION'S ECONOMIC SITUATION. WILL THEY BE ABLE TO CONVINCE THEIR

RANK AND FILE THAT IT IS IN THEIR INTEREST TO EXERCISE MODERATION IN THEIR DEMANDS? WILL THE UNIONS BE PREPARED TO ACCEPT MORE STRINGENT MEASURES TO CURB DOMESTIC DEMAND AND CONSUMPTION? WILL THE UNIONS ACCEPT REDUCTIONS IN THE WORK FORCE OF NATIONAL, MUNICIPAL AND LOCAL GOVERNMENT? THE ANSWERS TO THESE QUESTIONS WILL DEPEND HEAVILY ON THE POSITIONS TAKEN BY SUCH UNION LEADERS AS JACK JONES, TOM JACKSON AND DAVID BASNETT.

5. STATESMANSHIP BY KEY UNION LEADERS AND A SENSE OF MODERATION ON THE PART OF THE CONSTITUENT UNIONS ALONE WILL NOT LAUNCH THE PROCESS OF ACHIEVING NATIONAL CONFIDENTIAL

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SENSUS. TO PULL OUT OF ITS SLUMP THE NATION AT LARGE REDUCTION IN ITS LIVING STANDARD. THE PRESENT POPULAR MOOD DOES NOT SUGGEST THAT A NATIONAL CONSENSUS WILL BE EASILY ACHIEVED. BRITAIN STILL GIVES THE IMPRESSION OF A PROSPEROUS CONSUMER SOCIETY, WHOSE QUALITY OF LIFE IS AMONG THE HIGHEST IN THE WORLD. THE MALAISE IS GROWING, BUT ONE DOES NOT YET DETECT THE SENSE OF CRISIS THAT HAS HISTORICALLY MOBILIZED THE BRITISH PEOPLE. STILL THE PROSPECTS HERE ARE NOT SO MUCH BLEAKER THAN THOSE IN OTHER WESTERN EUROPEAN COUNTRIES, AND THE READINESS OF ALL SEGMENTS OF SOCIETY TO ACCEPT SACRIFICE IS A FUNCTION OF FIRM GOVERNMENT LEADERSHIP.

6. SOCIAL VALUES HAVE CHANGED AS RADICALLY IN THE UK AS ELSEWHERE IN EUROPE OVER THE PAST 10 OR 15 YEARS. DOUBTS ABOUT THE WISDOM OF GOVERNMENT ARE WIDESPREAD; PATRIOTIC FEELING IS REGULARLY RIDICULED; RESPECT FOR LAW HAS DIMINISHED. A "WE AND THEM" FEELING PERSISTS PARTICULARLY IN THE UNIONS WHICH SHOW THE SAME INDIFFERENCE THAT THE UPPER CLASSES, FOR ALL THEIR PRETENTION TO NOBLESSE OBLIGE, HAVE DEMONSTRATED IN THE PAST. THE ARGUABLY NOT SO SEVERE AS IN SOME OTHER WESTERN COUNTRIES. ACCELERATING INFLATION IN BRITAIN IS IN PART A BY-PRODUCT OF A PROCESS OF TRANSFERRING INCOME FROM THE MIDDLE AND UPPER TO THE WORKING CLASS. LOOKED AT IN THIS WAY, INFLATION MAY BE AS MUCH A SOCIAL-POLITICAL PROBLEM AS AN ECONOMIC ONE. INCOME IS BEING SHIFTED BY RAISING OF THE "SOCIAL WAGE" PARTLY BY CHANGES IN TAX MEASURES BUT PRINCIPALLY BY LARGE WAGE INCREASES. THE ECONOMY MAY SURVIVE CONTINUED INFLATION AT CLOSE TO PRESENT RATES AND GO ON FUNCTIONING EFFECTIVELY IN THE SENSE OF PRODUCING GOODS AND EMPLOYING PEOPLE, BUT IT IS A DESPERATE POSITION FOR PEOPLE WHO CANNOT KEEP PACE.

7. ALTHOUGH THE BRITISH ESTABLISHMENT IS AS MUCH A TARGET OF POPULAR CRITICISM AS THE ESTABLISHMENTS OF THE

CONTINENTAL COUNTRIES, BRITISH POLITICAL INSTITUTIONS
REMAIN VIABLE. HOWEVER "PRESIDENTIAL" CABINET GOVERNMENT
HAS BECOME, PARLIAMENT CONTINUES TO FUNCTION, IMPERFECTLY
PERHAPS BUT STILL PURPOSEFULLY. THE BUSINESS OF GOVERN-
MENT GOES ON BUT WITHOUT THE SENSE OF URGENCY THAT THE
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TIMES DEMAND. BRITISH MINISTERS FEEL BEWILDERED. BUT

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R 051602Z JUN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1703

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

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THEY ARE NOT ALONE. THE PRESENT LEADERS OF WESTERN EUROPE ARE CONFUSED MEN, BAFFLED BY PROBLEMS FOR WHICH THEY DO NOT HAVE SOLUTIONS. BRITISH POLITICIANS SHARE THE SECRETARY'S VIEW THAT THE WEST LACKS A THEORY TO COPE WITH SIMULTANEOUS UNEMPLOYMENT AND INFLATION.

8. WITHIN THE LABOR PARTY DEEP SEATED SCHISMATIC TENDENCIES HAVE BECOME MORE PRONOUNCED AS THE ECONOMIC CRISIS HAS DEEPENED; ADVOCATES OF PURE SOCIALISM AND A "MIXED" ECONOMY HAVE BEEN DISPUTING ALMOST AS FIERCELY OVER ECONOMIC POLICY AS THEY HAVE BEEN DOING OVER EUROPE. BRITAIN'S FUTURE COURSE IN EUROPE WILL HAVE BEEN DECIDED BY THE TIME THIS CABLE IS READ; THE INTERNAL DEBATE OVER WHAT TO DO TO PUT THE ECONOMY RIGHT AND CHART A COURSE FOR THE FUTURE WILL NOT BE SO QUICKLY OR DEFINITELY CONCLUDED. WILSON HAS NOT GIVEN HIS PARTY OR THE COUNTRY THE LEAD WHICH IS SO URGENTLY NEEDED. HE HAS TEMPORIZED, MANAGED, PLAYED OFF ONE FACTION AGAINST ANOTHER. ALTHOUGH UNIVERSALLY UNLOVED IN HIS PARTY AND LITTLE RESPECTED IN THE COUNTRY AT LARGE, HE HAS SO FAR PROVED TO BE THE INDISPENSABLE LEADER MAINLY BECAUSE THERE IS NO AGREEMENT ON AN ALTERNATIVE. ON ONE POINT MOST OBSERVERS AGREE: WILSON MUST SOON START ACTING LIKE A PRIME MINISTER OF THE WHOLE COUNTRY. THEY DISAGREE ABOUT HIS CAPACITY TO DO SO AFTER SO MANY YEARS OF PUTTING TACTICAL ADVANTAGE AHEAD OF THE LONG PERSPECTIVE.

9. THE CONSERVATIVES HAVE NOT SHOWN THEMSELVES TO BE A VIABLE ALTERNATIVE TO INDECISIVE GOVERNMENT BY LABOR UNDER WILSON. STILL IN THE TRAUMA OF TWO ELECTORAL DEFEATS IN 1974, THE TORIES ARE GROPING FOR A CLEAR-CUT OPPOSITION ROLE. THEY HAVE CAREFULLY AVOIDED CHALLENGING THE GOVERNMENT ON ESSENTIAL PARTS OF ITS PROGRAM, AND HAVE MADE

CLEAR THEY DO NOT SEEK AND ARE NOT READY TO DISPLACE IT
IN OFFICE. THE MAJOR POLITICAL PARTIES HAVE NOT YET
REALLY ENGAGED ON THE FUNDAMENTAL ISSUES OF THE CONTROL
OR DIRECTION OF THE NATION'S ECONOMY. LABOR CLINGS TO
THE SOCIAL CONTRACT; THE CONSERVATIVES OFFER NO ALTER-
NATIVE. BOTH SO FAR HAVE ESCHEWED A STATUTORY INCOMES
POLICY. MAJOR DECISIONS ON HOW TO BRING WAGE SETTLEMENTS
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AND INFLATION UNDER CONTROL ARE STILL TO BE TAKEN. THERE
IS AN IMMOBILISM IN BRITISH PUBLIC LIFE TODAY.
10. AT BOTTOM BRITAIN'S PROBLEMS ARE MORE OF A POLITICAL
THAN ECONOMIC NATURE; SOLUTIONS WILL HAVE TO BE SOUGHT
THROUGH THE POLITICAL PROCESS. SIMPLY STATED, THIS
MEANS THAT FIRM GOVERNMENT IS THE SINE QUA NON TO BREAK-
ING OUT OF THE CURRENT IMMOBILISM. IF THE VOTE IN TODAY'S
REFERENDUM RESULTS, AS EXPECTED, IN A SUBSTANTIAL MAJOR-
ITY FOR CONTINUED MEMBERSHIP IN THE EUROPEAN COMMUNITY,
THE PRIME MINISTER'S AUTHORITY WILL BE GREATLY ENHANCED.
HE WILL BE ABLE TO REALIGN HIS CABINET, MOVING LEFT-WING
MINISTERS INTO POSITIONS WHICH CIRCUMSCRIBE THEIR
CAPACITY TO INFLUENCE ECONOMIC POLICY. IF HE CLEARLY
POINTS THE PARTY IN THE DIRECTION OF THE MODERATE WING,
THE ANXIETY OF THE CITY, THE BUSINESS COMMUNITY, FOREIGN
INVESTORS AND BANKERS WILL BE CONSIDERABLY RELIEVED. A
PARALLEL TASK WILL BE TO DEVISE A FORMULA TO ENCOURAGE
THE TUC TO ACCEPT AN EFFECTIVE PROGRAM OF WAGE RESTRAINT,
RESTRICTIONS ON PUBLIC SPENDING AND PRIVATE CONSUMPTION.
WHETHER WILSON IS PREPARED OR ABLE TO PURSUE SUCH A
COURSE OF ACTION CANNOT NOW BE PREDICTED. BY FALL IF
THE ECONOMIC AND SOCIAL CONSEQUENCES OF ROARING IN-
FLATION ARE BROUGHT HARSHLY HOME TO ALL SEGMENTS OF

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SOCIETY, THERE IS A CHANCE THAT HE COULD GAIN A CONSENSUS
FOR POLICIES THAT COMMAND WIDESPREAD SUPPORT.

11. THE POLITICAL PHENOMENON OF SUPRA-PARTY COOPERATION
IN THE CAMPAIGN FOR A "YES" VOTE IN THE REFERENDUM IS
AN ENCOURAGING SIGN FOR THE FUTURE. FEW POLITICIANS
BELIEVE THAT THIS DE FACTO COALITION COULD RIPEN INTO A
NATIONAL GOVERNMENT. BUT THE HABIT OF WORKING TOGETHER
TO ACHIEVE A SHARED OBJECTIVE IN NATIONAL NOT PARTY

INTERESTS COULD SURVIVE THE REFERENDUM CAMPAIGN AND POINT THE WAY TOWARD A NON-PARTY CONSENSUS ON A PROGRAM TO ATTACK INFLATION, STABILIZE INDUSTRIAL RELATIONS AND CHART THE WAY TO INDUSTRIAL RECOVERY.

12. THE NEXT SIX MONTHS WILL PROBABLY BE CRITICAL. DECISIONS WHICH HAVE BEEN PUT OFF TOO LONG -- BECAUSE OF THE REFERENDUM, DIVISIONS IN THE LABOR PARTY, DIFFERING PERCEPTIONS OF THE TUC LEADERSHIP AND THE UNION RANK AND FILE -- WILL HAVE TO BE TAKEN BY WINTER. THE PRIME MINISTER CAN STILL GRASP THE NETTLE; THE CONJUNCTION OF EVENTS MAY BE RIGHT FOR HIM TO EXPECT POSITIVE RESULTS FROM AN ACT OF STATESMANSHIP. BRITAIN IS NOT UNGOVERNABLE (PACE ERIC SEVAREIG); THE CORE ISSUE, AS ONE RESPECTED POLITICAL EDITOR HAS WRITTEN, IS WHETHER THE GOVERNORS WILL GOVERN. UNTIL WE GET AN UNEQUIVOCAL ANSWER, IT IS PREMATURE TO REACH FACILE CONCLUSIONS ABOUT THE DEMISE OF BRITAIN.

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